

| |
|------------------------------------|
| OMB APPROVAL |
| OMB NUMBER |
| EXPIRES |
| EST. AVG. BURDEN HRS. PER RESPONSE |



U.S. SECURITIES
WAS

04001685

MISSION

VF3-4-04 RCR

| FACING PAGE | | |
|--|---|-------------------------|
| Annual Audited Report Form X-17A-5—Part III | Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder | SEC File No. 8-33283 |

REPORT FOR THE PERIOD BEGINNING January 1, 2003 AND ENDING December 31, 2003
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

Name of Broker-Dealer:

Wells Fargo Brokerage Services, LLC

Official Use Only

Firm ID No.

Address of Principal Place of Business:
(Do not use P.O. Box No.)

608 Second Avenue South, 9th Floor

(No. and Street)

Minneapolis

(City)

Minnesota

(State)

55479

(Zip Code)

Name and Telephone Number of Person to Contact in Regard to This Report

Joan C. Niedfeldt

612-667-5962

(Area Code—Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG

(Name—if individual, state last, first, middle name)

4200 Wells Fargo Center, 90 South Seventh Street, Minneapolis, MN

55402

(Address)

City

State

(Zip Code)

Check One:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in U.S. or any of its possessions.

PROCESSED

MAR 24 2004

THOMSON
FINANCIAL

For Official Use Only

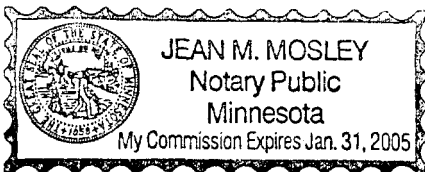
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2).

SEC 1410 (3.91)

OATH OR AFFIRMATION

I, Joan C. Niedfeldt, swear (or affirm) that to the best of my knowledge and belief the accompanying financial statement pertaining to the firm of Wells Fargo Brokerage Services, LLC as of December 31, 2003 is true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None



Joan C. Niedfeldt

Joan Mosley
Notary Public

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

***For conditions of confidential treatment of certain portions of this filing, see Section 240.17a5(e)(3).*

WELLS FARGO BROKERAGE SERVICES, LLC

Table of Contents

| | Page |
|---|------|
| Independent Auditors' Report | 1 |
| Statement of Financial Condition | 2 |
| Notes to Statement of Financial Condition | 3 |



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Governors and Member
Wells Fargo Brokerage Services, LLC:

We have audited the accompanying statement of financial condition of Wells Fargo Brokerage Services, LLC, a wholly owned subsidiary of Wells Fargo Investment Group, Inc. whose ultimate parent is Wells Fargo & Company, as of December 31, 2003, that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Wells Fargo Brokerage Services, LLC as of December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 20, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

Minneapolis Office
Celebrating
100 years
1904-2004

WELLS FARGO BROKERAGE SERVICES, LLC

Statement of Financial Condition

December 31, 2003

(In thousands)

Assets

| | | |
|---|----|------------------|
| Cash | \$ | 1,143 |
| Cash and market value of securities required to be segregated under federal or other regulations (note 3) | | 13,553 |
| Deposits with clearing organizations | | 18,078 |
| Receivable from: | | |
| Brokers, dealers and clearing organizations (note 4) | | 1,158,240 |
| Customers (note 5) | | 484,150 |
| Securities owned, at market value, including \$1,034,639 of securities pledged (notes 6 and 7) | | 1,077,746 |
| Securities purchased under agreements to resell (note 7) | | 1,399,340 |
| Securities borrowed | | 22,473 |
| Fixed assets, net of accumulated depreciation of \$4,141 | | 1,274 |
| Due from affiliates | | 14,677 |
| Accrued interest receivable | | 3,972 |
| Other assets | | 863 |
| Total assets | \$ | <u>4,195,509</u> |

Liabilities and Member's Equity

| | | |
|---|----|------------------|
| Liabilities: | | |
| Short-term borrowings from affiliates (note 8) | \$ | 500 |
| Payable to: | | |
| Brokers, dealers and clearing organizations (note 4) | | 569,939 |
| Customers, including free credit balances of \$142,955 (note 5) | | 346,430 |
| Securities sold, not yet purchased at market value (note 6) | | 675,125 |
| Securities sold under agreements to repurchase (note 7) | | 2,416,316 |
| Accrued compensation and related benefits | | 7,526 |
| Other liabilities and accrued expenses | | 1,875 |
| Total liabilities | | <u>4,017,711</u> |
| Commitments and contingencies (note 9) | | |
| Subordinated borrowings (note 8) | | 50,000 |
| Member's equity | | <u>127,798</u> |
| Total liabilities and member's equity | \$ | <u>4,195,509</u> |

See accompanying notes to statement of financial condition.

WELLS FARGO BROKERAGE SERVICES, LLC

Notes to Statement of Financial Condition

December 31, 2003

(1) Organization and Nature of Operations

Wells Fargo Brokerage Services, LLC (WFBS) is a wholly owned subsidiary of Wells Fargo Investment Group, Inc. (WFIG) whose ultimate parent is Wells Fargo & Company (WFC). WFBS' primary activities are institutional securities brokerage, trading and underwriting. WFBS is registered with the Securities and Exchange Commission (the SEC) as a broker/dealer, is a member of the Chicago Stock Exchange, and has branch offices located primarily in the central and western regions of the United States.

(2) Summary of Significant Accounting Policies

(a) Securities Transactions

Securities owned and securities sold, not yet purchased are recorded at quoted market values.

(b) Fair Value of Financial Instruments

Substantially all of WFBS' financial assets and liabilities are carried at market value or at amounts, which, because of their short-term nature, approximate current fair value.

Derivative financial instruments used for trading purposes, including economic hedges of trading instruments, are carried at market value or, if market prices are not readily available, fair value. Market values for exchange-traded derivatives are based on quoted market prices. Fair values for over-the-counter derivative financial instruments, principally swaps, are based on pricing models intended to approximate the amounts that would be received from or paid to a third party in settlement of the contracts. Factors taken into consideration include credit spreads, market liquidity, concentrations, and funding and administrative costs incurred over the life of the instruments.

Derivatives used for economic hedging purposes include swaps. WFBS does not apply hedge accounting as defined in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as all financial instruments are marked to market. Therefore, the disclosures required in paragraphs 44 and 45 of the Statement are generally not applicable with respect to these financial instruments.

Fair values of swaps and options contracts are recorded in Other Assets and Other Liabilities.

(c) Receivable From and Payable to Brokers/Dealers

Amounts receivable from and payable to brokers/dealers consist primarily of the contract value of securities which have not been delivered or received as of the date of the statement of financial condition. Receivables from and payable to brokers/dealers are recorded on a trade-date basis.

(d) Receivable From and Payable to Customers

Amounts receivable from and payable to customers arise from normal securities transactions. Securities owned by customers and held in safekeeping are not reflected in the statement of financial condition. Receivables from and payable to customers are recorded on a trade-date basis.

(e) Securities Under Agreement to Resell and Repurchase

Resale and repurchase agreements are carried at contract amounts reflective of the amounts at which the securities will be subsequently reacquired or resold, plus accrued interest.

WELLS FARGO BROKERAGE SERVICES, LLC

Notes to Statement of Financial Condition

December 31, 2003

(f) *Securities Lending Activities*

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require WFBS to deposit cash, letters of credit, or other collateral with the lender. With respect to securities loaned, WFBS receives cash or other collateral in an amount generally in excess of the market value of securities loaned. WFBS monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

(g) *Fixed Assets*

Furniture and equipment are stated at cost less accumulated depreciation and amortization, and are depreciated using the straight-line method over the estimated useful life of the asset, generally three to five years. Leasehold improvements are amortized using the straight-line method over the lesser of the respective lease term or the estimated life of the improvement.

(h) *Income Taxes*

WFBS is disregarded as an entity separate from its owner and its operations are included in the federal and state income tax returns of its sole member and parent, WFIG.

(i) *Use of Estimates*

The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from such estimates.

(3) *Cash and Securities Required to be Segregated Under Federal or Other Regulations*

Rule 15c3-3 of the Securities Exchange Act of 1934 specifies that broker/dealers carrying customer accounts may be required to maintain cash or qualified securities in a special reserve account for the exclusive benefit of customers. Reserve amounts are computed in accordance with a formula defined in Rule 15c3-3. WFBS transferred an additional \$234,500,000 to a special reserve account on January 2, 2004, pursuant to the December 31, 2003, reserve calculation.

WELLS FARGO BROKERAGE SERVICES, LLC

Notes to Statement of Financial Condition

December 31, 2003

(4) Receivable from and Payable to Brokers, Dealers and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations consist of the following (in thousands):

Receivables:

| | | |
|---|----|------------------|
| Securities failed to deliver | \$ | 2,161 |
| Securities failed to deliver with clearing organizations | | 173 |
| Receivables from affiliated broker (WFBS) as correspondent, net | | 20,821 |
| Unsettled trades & other receivables (including \$101,298 from affiliated broker) | | 1,135,085 |
| | \$ | <u>1,158,240</u> |

Payables:

| | | |
|--|----|----------------|
| Securities failed to receive | \$ | 91,098 |
| Securities failed to receive with clearing organizations | | 10,751 |
| Unsettled trades & other payables | | 468,090 |
| | \$ | <u>569,939</u> |

(5) Receivable from and Payable to Customers

Amounts receivable from and payable to customers consist of the following (in thousands):

Receivables:

| | | |
|--------------------------------------|----|----------------|
| Customers failed to deliver | \$ | 13,255 |
| Unsettled trades & other receivables | | 470,895 |
| | \$ | <u>484,150</u> |

Payables:

| | | |
|-----------------------------------|----|----------------|
| Customers failed to receive | \$ | 145,909 |
| Unsettled trades & other payables | | 200,521 |
| | \$ | <u>346,430</u> |

(6) Securities Owned and Securities Sold, Not Yet Purchased

Securities owned and securities sold, not yet purchased consist of trading securities at market values as follows (in thousands):

| | <u>Owned</u> | <u>Sold, not yet purchased</u> |
|---|---------------------|--------------------------------|
| U.S. Government and government agency obligations | \$ 70,417 | 43,086 |
| Commercial paper, certificates of deposit and eurodollars | 305,681 | 98 |
| Collateralized mortgage obligations | 654,736 | 623,870 |
| State and municipal obligations | 30,408 | 70 |
| Corporate bonds, debentures and notes | 16,504 | 8,001 |
| | <u>\$ 1,077,746</u> | <u>675,125</u> |

WELLS FARGO BROKERAGE SERVICES, LLC

Notes to Statement of Financial Condition

December 31, 2003

Securities sold, not yet purchased represent obligations of WFBS to deliver the specified security at the contracted price, and thereby create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk, as WFBS' ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount recognized in the statement of financial condition.

(7) Securities Sold Under Agreements to Resell and Repurchase

Resale and repurchase agreements are collateralized primarily with U.S. Government or U.S. Government agency securities. Such agreements provide WFBS with the right to maintain the relationship between the market value of the collateral and the receivable or payable. WFBS generally takes physical possession of the collateral underlying resale agreements.

WFBS' risk with regard to resale agreements is the failure of the counterparty to the transaction to perform its obligation under the transaction and the balance of the receivable exceeds the market value of the underlying collateral. WFBS' risk with regard to repurchase agreements is the failure of the counterparty to the transaction to perform its obligation under the transaction and the market value of the underlying collateral exceeds the balance of the corresponding payable.

At December 31, 2003, the market value of collateral held for resale agreements and the market value of securities pledged for repurchase agreements approximated the amounts due.

At December 31, 2003, WFBS has received collateral under resale agreements that it is permitted by contract or custom to sell or repledge of \$1,429,822,000. Of this amount, \$1,414,371,000 has been repledged. At December 31, 2003, WFBS has pledged collateral of \$2,449,010,000 under repurchase agreements that counterparties are permitted by contract or custom to sell or repledge. This amount, less that repledged under resale agreements, is included in securities owned on the statement of financial condition.

(8) Related Party Transactions

In the ordinary course of business, WFBS enters into material transactions with other affiliates of WFC.

Short-term borrowings from affiliates represent borrowings from Wells Fargo Bank, N.A. (the Bank) and WFC, which are primarily used to finance WFBS' trading activities. Short-term borrowings from the Bank are collateralized by trading securities and short-term borrowings from WFC are unsecured. WFBS pays interest on these borrowings at interest rates approximating commercial lending rates.

On April 30, 2003, WFBS distributed its ownership interest in NISI Wyoming Insurance to WFIG. This transaction resulted in a distribution-in-kind of the net equity of \$9,000.

Effective December 30, 2002, WFBS entered into a \$50,000,000 subordinated loan agreement with WFIG. The agreement expires on January 31, 2006. Amounts outstanding under the agreement accrue interest based on the 90-day LIBOR rate plus 0.25%. The loan has been approved by the NASD for inclusion in computing net capital under the Securities and Exchange Commission's Uniform Net Capital Rule. Outstanding amounts with maturities within one year are not available for inclusion in computing net capital.

WELLS FARGO BROKERAGE SERVICES, LLC

Notes to Statement of Financial Condition

December 31, 2003

(9) Commitments and Contingencies

In the normal course of business, there are various lawsuits, claims, and contingencies pending against WFBS which, in the opinion of management, will be resolved with no material impact on WFBS' financial position.

Approximate annual minimum payments under all operating lease agreements are as follows (in thousands):

| | | |
|---------------------------------|----|-------------------|
| 2004 | \$ | 73 |
| 2005 | | 36 |
| Thereafter | | <u>—</u> |
| Total minimum payments required | \$ | <u><u>109</u></u> |

(10) Net Capital Requirements

WFBS is subject to the Uniform Net Capital Rule 15c3-1 (the Rule) under the Securities Exchange Act of 1934. WFBS has elected to compute net capital under the alternative provisions of the Rule, which require WFBS to maintain net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit items arising from customer transactions, as defined. At December 31, 2003, WFBS' net capital was \$80,224,000, which was 650% of aggregate debit items and which exceeded the minimum net capital requirement of \$250,000 by \$79,974,000.

(11) Employee Benefits

WFBS participates in WFC's noncontributory qualified defined benefit retirement plans that cover substantially all employees. The actuarial present values of accumulated plan benefits and net assets available for benefits relating to only WFBS' employees are not available.

WFBS' employees are eligible for benefits under WFC's 401(k) Plan. Under the 401(k) Plan, each eligible employee may contribute up to 25% of their pretax certified compensation, although certain employees who are considered "highly compensated" under the Internal Revenue Code may be subject to certain limitations. Eligible employees who complete one year of service are eligible for matching company contributions, which are generally a dollar for dollar match up to 6% of an employee's certified compensation. The matching contributions are invested in WFC's common stock and are generally subject to a four-year vesting schedule.

(12) Financial Instruments With Off-Balance-Sheet Risk

In the normal course of business, WFBS' customer and correspondent clearance activities obligate WFBS to settle transactions with brokers and other financial institutions even if its customers fail to meet their obligations to WFBS. Customers are required to complete their transactions on the settlement date, generally three business days after the trade date. If customers do not fulfill their contractual obligations, WFBS may incur losses. WFBS has established procedures to reduce this risk by requiring deposits from customers for certain types of trades.

WELLS FARGO BROKERAGE SERVICES, LLC

Notes to Statement of Financial Condition

December 31, 2003

WFBS seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. WFBS monitors required margin levels daily and, pursuant to such guidelines, requires customers to deposit additional collateral or to reduce positions when necessary. Market declines could, however, reduce the value of collateral below the amount loaned plus accrued interest, before the collateral could be sold.

As a broker/dealer in securities, substantial portions of WFBS' transactions are collateralized. WFBS' exposure to credit risk associated with the nonperformance in fulfilling contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets that may impair customers' or counterparties' ability to satisfy their obligations to WFBS. WFBS does not believe it has any significant concentrations of credit risk.

In the normal course of business, WFBS enters into underwriting commitments. Transactions relating to such underwriting commitments, that were open at December 31, 2003, have subsequently settled and had no material effect on WFBS' statement of financial condition for the year ended December 31, 2003.

WFBS enters into various transactions involving derivatives and other off-balance-sheet financial instruments. These financial instruments include delayed deliveries, mortgage-backed to-be-announced securities (TBAs), securities purchased and sold on a when-issued basis (when-issued securities), and interest rate swaps. These derivative financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk. Derivative transactions are entered into for trading purposes or to economically hedge other positions or transactions.

TBAs and when-issued securities provide for the delayed delivery of the underlying instrument. Interest rate swaps involve the exchange of payments based on fixed or floating rates applied to notional amounts. The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

As of December 31, 2003, WFBS had entered into various agreements with Wells Fargo Bank (WFB) and an unaffiliated entity, whereby WFBS 1) guarantees performance under certain interest rate swap transactions upon default of WFB's or the unaffiliated entity's respective counterparty, 2) must provide the tender option liquidity as remarketing agent for certain bonds, or 3) provides a put option to WFB on certain bonds in the event the issuer defaults on its maturity payment. These agreements have maturity dates ranging from 2004 to 2029, are typically not collateralized, and do not contain recourse provisions. At December 31, 2003, the maximum potential amount of future payments WFBS could be required to make under these guarantees is approximately \$52,174,000. With respect to three such agreements, there is available collateral of \$8,240,000 at December 31, 2003.